

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

VALASSIS NSA

Docket No. MC2012-14

Docket No. R2012-8

**OPPOSITION OF ADVANCE PUBLICATIONS, INC.**

(May 23, 2012)

This filing is made on behalf of Advance Publications, Inc. ("Advance"). Advance is the owner of twenty-one daily and twenty-four weekly newspapers in various parts of the United States, including, *The Star-Ledger*, based in Newark, New Jersey, *The Plain Dealer* (Cleveland, Ohio), *The Oregonian* (Portland, Oregon), *The Times-Picayune* (New Orleans, Louisiana), *The Birmingham News* (Birmingham, Alabama), *The Grand Rapids Press* (Grand Rapids, Michigan), *The Post-Standard* (Syracuse, New York), and *The Patriot News* (Harrisburg, Pennsylvania). Advance submits these comments to the Commission in opposition to the proposed negotiated service agreement ("NSA") with Valassis. For the reasons set forth below, the NSA should be rejected by the Commission. Alternatively, the NSA should not be accepted by the Commission until a full and complete study of the effect on the marketplace and the impact on Postal Service revenue is conducted and the results are made available for public review and comment.

**1. Durable And Semi-Durable Goods Retailers Are An Important Component of Newspaper Advertising.**

The proposed Valassis NSA would provide significantly discounted postal rates for Valassis' free standing inserts ("FSIs") for retailers selling "durable and semi-

durable goods.” Although it is not clear exactly what durable and semi-durable goods advertising is,<sup>1</sup> we presume that it encompasses advertising relating to items other than food, grocery, medications and service businesses. If correct, “durable and semi-durable goods” make up the bulk of FSI advertising in newspapers. FSIs, in turn, represent a large portion of newspaper advertising revenue. Due, in large part, to the revenue generated by this advertising, newspapers are able to create and distribute original editorial content that benefits the communities they serve and the public at large. For example, revenue generated by FSIs helped to allow Advance’s *The Times-Picayune*, to provide important and timely reporting of critical news and information in the New Orleans area before and after Hurricane Katrina, coverage which earned the newspaper Pulitzer Prizes for Breaking News, and Public Service. Similarly, FSI revenue helped enable the expensive and time-consuming investigations that resulted in the reporting by Advance’s *The Patriot-News*, regarding the Penn State sexual abuse scandal. *The Patriot News* was awarded the Pulitzer Prize for Local Reporting last month for this coverage.

Reductions in FSI revenue caused by an NSA specifically designed to unfairly benefit Valassis, at the expense of newspapers and the communities they represent and support across the county, does not further the public good and will make this type of reporting, as well as the equally important reporting on day-to-day community life (school boards, high school sports, local politics etc.), considerably more difficult and potentially more expensive for residents of these communities.

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<sup>1</sup> The term “durable and semi-durable goods” is vague, with no clearly applicable definition as to the specific types of goods and retailers to which it applies. Given the lack of clarity concerning the meaning of the term, Advance questions whether Valassis’ compliance with the terms of the NSA, if it is approved, can be adequately monitored.

## **2. The NSA Would Cause Unreasonable Harm To The Advertising Marketplace.**

As we understand it, an NSA may not be approved by the Commission if it causes “unreasonable harm” to the marketplace. Advance believes that the Postal Service incorrectly calculates how the NSA will affect the advertising market and therefore incorrectly concludes that there will not be “unreasonable harm” to the marketplace. The claim that if the NSA generates \$107 million in revenue for the Postal Service over three years, it would represent only 0.6% of 2014 forecasted newspaper revenue, and that as a result there would be “minimal financial impact on the marketplace,” is simply wrong.

The \$107 million that the Postal Service refers to is the potential increased postage revenue resulting from the NSA. However, that number significantly understates the potential loss of revenue to newspapers by multiples. The \$107 million figure is only the postage component of advertising - - it is only a part of the full cost of the advertising paid to the company distributing the FSIs. It is this total amount paid for advertising (not just the postage revenue paid to the Postal Service) that is the more accurate representation of the loss of advertising revenue to newspapers. This error alone calls into question the accuracy of the Postal Service’s numbers.

The advertising at issue here, durable and semi-durable goods FSIs, are an important part of newspaper advertising revenues. A look at sixteen Advance newspapers indicates that such inserts represented over \$100 million in revenue in 2011, and at most newspapers such FSIs represent well over 50% of total FSI revenue. Approval of the NSA would put much of this revenue at substantial risk, given the dramatic rate reductions to be provided to Valassis under the proposed NSA. Moreover, as the \$100 million revenue estimate reflects information from only sixteen Advance

newspapers for one year, the claimed \$107 million number clearly understates the total newspaper revenue at risk.

### **3. The Postal Service Has Failed To Consider The Revenue It Will Lose As A Result Of The NSA.**

The Postal Service also seems to fail to take into account the real possibility that it will lose postage revenue from newspapers if the NSA is approved. Valassis generally delivers its advertising packages by mail to all of the households in a given area. All households do not, of course, have the newspaper delivered to their home. In order to compete for advertising and to be able to distribute on a comparable basis to Valassis, many newspapers distribute advertising to non-newspaper-subscribers using a total market coverage ("TMC") product. Often, these TMC products are delivered by mail, and generate significant revenue for the Postal Service.

If Valassis is able to sell distribution to advertisers using the significant postage discounts reflected in the NSA, more newspapers will need to convert their TMC delivery from the mail to lower-cost alternate delivery methods in order to compete. As an example, *The Plain Dealer* paid the Postal Service \$6,300,000 for postage for its TMC product in 2011. If the NSA is approved, the need to compete will likely result in *The Plain Dealer* moving millions of FSIs annually out of the mail and into alternate delivery. The newspaper estimates that in such event, its projected reduction in postage spending for its TMC product would be approximately \$2,240,000.

Other Advance newspapers have indicated that, due to the NSA, a similar shift of their TMC products out of the mail would also result in decreased spending on postage, such as *The Birmingham News*, which foresees a reduction in postage spending of \$1,070,000 if the NSA is approved, and *The Post-Standard*, which projects

a \$570,000 annual reduction in postage. Therefore, counting these three newspapers alone, the potential loss of gross revenue to the Postal Service from newspaper TMC products would be \$3,880,000 per year. Extrapolating this number across the entire universe of mailed newspaper TMC products across the country, the potential loss in revenue could significantly diminish, if not eliminate, the claimed financial contribution to the Postal Service from the NSA. This result is even clearer when it is considered that mail volume that shifts from newspapers to Valassis under the proposed NSA will be at rates that are much lower than those being paid to newspapers.

#### **4. Conclusion.**

For the reasons stated above, Advance respectfully requests that the Commission reject the NSA. Alternatively, the NSA should not be accepted by the Commission until after a full and complete study of the effect on the marketplace and the impact on Postal Service revenue is conducted and the results are made available for public review and comment.

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